

## Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 SP-02 ICA-20 AID-05 EB-08  
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06  
LAB-04 SIL-01 L-03 H-02 PA-02 DOE-15 SOE-02 /139 W  
-----087610 270913Z /10

P 270850Z JUL 78

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 9928

TREASURY/DEP WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

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USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FOLLOW-UP ON BONN SUMMIT

1. SUMMARY: AT A MEETING LATE WED JULY 27 THE CABINET  
ECONOMIC MINISTERS VIRTUALLY AGREED THAT A SUPPLEMENTAL  
BUDGET WOULD BE NECESSARY TO ACHIEVE THE 7 PCT GROWTH  
TARGET AND, AT THE PRIME MINISTER'S INSTRUCTION, AGREED  
TO BEGIN COORDINATING VIEWS AMONG MINISTRIES SO THAT THE  
NEXT MEETING OF THE CABINET GROUP, SCHEDULED FOR SEP 2,  
COULD RECOMMEND THE NATURE AND MAGNITUDE OF MEASURES TO BE  
ADOPTED. END SUMMARY.

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2. THE ECONOMIC CABINET MINISTERS MET LATE YESTERDAY  
AFTERNOON TO CONSIDER FOLLOW-UP ON THE BONN SUMMIT,  
INCLUDING MEASURES TO REDUCE JAPAN'S EXTERNAL SURPLUS.  
BASED ON BRIEFING BY MINISTER MIYAZAWA AFTER THE MEETING,  
PRESS REPORTS GENERALLY CONCLUDE THAT AGREEMENT WAS  
REACHED THAT A SUPPLEMENTAL BUDGET WOULD BE NECESSARY IN  
ORDER TO ACHIEVE JAPAN'S 7 PCT GROWTH TARGET. HOWEVER,

ACCORDING TO THE ECONOMIC PLANNING AGENCY'S PRESS OFFICE, MINISTER MIYAZAWA IN HIS BRIEFING DID NOT EXPLICITLY STATE THAT THE ECONOMIC CABINET HAD REACHED SUCH A DECISION. APPARENTLY, HOWEVER, HE LEFT THE IMPRESSION THAT THE DECISION WAS ALL BUT MADE. AS WE UNDERSTAND IT, COORDINATION OF VIEWS AMONG MINISTRIES PREPARATORY TO THE NEXT MEETING OF THE ECONOMIC CABINET, SCHEDULED FOR SEP 2, WILL PROCEED ON THE ASSUMPTION THAT THERE WILL BE A SUPPLEMENTAL BUDGET.

3. THE PRIMIN IN A TALK TO THE JAPANESE PRESS CLUB THE SAME DAY SKETCHED THE CONSTRAINTS ON COMPILING A SUPPLEMENTAL BUDGET. THE PRIMIN SAID THAT BECAUSE OF THE GOVT'S FINANCIAL POSITION HE WOULD PREFER TO CONCENTRATE ON MEASURES OTHER THAN INCOME TAX CUTS OR PUBLIC WORKS PROGRAMS AND INSTEAD TO FOCUS ON OTHER PROGRAMS. PRESS INTERPRETS THIS TO MEAN SUCH PROGRAMS AS HOUSING LOANS AND ENCOURAGING CONSTRUCTION OF OIL STOCKPILE FACILITIES BY PRIVATE FIRMS. PRESS ALSO SPECULATES THAT THE SUPPLEMENTAL BUDGET IS LIKELY TO CONTAIN ADDITIONAL SPECIAL ASSISTANCE FOR SMALL AND MEDIUM-SIZE INDUSTRIES AND STRUCTURALLY DEPRESSED INDUSTRIES HARD HIT BY YEN APPRECIATION.

4. THE WEDNESDAY ECONOMIC CABINET MINISERS MEETING ALSO DEVOTED CONSIDERABLE TIME TO DISCUSSING WAYS TO PASS  
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ALONG TO CONSUMERS THE BENEFITS FROM YEN APPRECIATION. IT WAS DECIDED TO EXERCISE SURVEILLANCE OVER THE DISTRIBUTION SYSTEM TO SEE THAT ALL THE GAINS WERE NOT ABSORBED BY MIDDLEMEN. HOWEVER, THE ELECTRICITY AND GAS INDUSTRIES WERE SINGLED OUT AS SPECIAL CASES AND IT WAS AGREED THAT IT WOULD BE MORE BENEFICIAL IF THESE INDUSTRIES RETAINED THEIR SUBSTANTIAL EXCHANGE GAINS IN ORDER TO FINANCE STEPPED-UP INVESTMENTS IN NEW FACILITIES RATHER THAN PROCEEDING WITH RATE CUTS ADVOCATED BY CONSUMER GROUPS.

5. THE JULY 26 MEETING ALSO AGREED TO SUBMIT TO THE NEXT ORDINARY DIET SESSION NEW BILLS REVISING THE FUNDAMENTAL APPROACH OF THE FOREIGN EXCHANGE CONTROL SYSTEM, FROM ONE OF "PROHIBITED UNLESS AUTHORIZED" TO "AUTHORIZED UNLESS PROHIBITED." THIS MOVE HAD BEEN EXPECTED, BUT TILL NOW THE GOVT HAD NOT FIRMLY COMMITTED ITSELF TO A FIXED DATE FOR INTRODUCING LEGISLATION. THE EMERGENCY IMPORT PROGRAM REPORTEDLY WAS ALSO DISCUSSED IN SOME DETAIL BUT NO NEW DECISIONS WERE TAKEN BEYOND THOSE ANNOUNCED BEFORE THE BONN SUMMIT.

6. BASED ON REMARKS BY FINMIN MURAYAMA AFTER THE MEETING,

THERE HAS BEEN SPECULATION IN THE PRESS THAT A CUT IN THE DISCOUNT RATE MIGHT BE CONSIDERED. THIS APPEARS TO RELY ON A SOMEWHAT STRAINED INTERPRETATION OF THE FINANCE MINISTER'S ANSWER TO A QUESTION ABOUT A DISCOUNT RATE CUT. THE FINMIN SAID IT WOULD BE "VERY DIFFICULT TO IMPLEMENT A CUT IN THE DISCOUNT RATE" AND WENT ON TO SAY THAT IN

LIGHT OF JAPAN'S UNDERTAKINGS AT THE SUMMIT THE GOVT WAS EXAMINING WHAT IT COULD DO IN THE REAL SECTOR AND ALSO

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LAB-04 SIL-01 L-03 H-02 PA-02 DOE-15 SOE-02 /139 W  
-----087642 270912Z /10

P 270850Z JUL 78

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 9929

TREASURY/DEP WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

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WHAT IT COULD DO IN THE FINANCIAL SECTOR. BOJ AND MOF OFFICIALS SUBSEQUENTLY DENIED THAT ANY REQUESTS HAD BEEN MADE THAT THEY CONSIDER A DISCOUNT RATE CUT. MANSFIELD

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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
**Concepts:** BUDGETS, FINANCIAL PLANS  
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**Decaption Date:** 01 jan 1960  
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**Disposition Approved on Date:**  
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